

December 4th, 2017

**Research update**

**SMC** Research  
Small and Mid Cap Research



## Staramba SE

Further multiplication of revenues  
possible after 2017 as well

Rating: **Speculative Buy** (unchanged) | Price: **41.54 Euro** | Price target: **73.30 Euro**

**Analyst:** Dipl.-Kfm. Holger Steffen  
**sc-consult GmbH**, Alter Steinweg 46, 48143 Münster

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**Phone:** +49 (0) 251-13476-94  
**Telefax:** +49 (0) 251-13476-92  
**E-Mail:** kontakt@sc-consult.com  
**Internet:** www.sc-consult.com

## Recent business development



### Basic data

Based in:	Berlin
Sector:	3D and VR technology
Headcount:	80
Accounting:	HGB
ISIN:	DE000A1K03W5
Price:	41.54 Euro
Market segment:	General Standard
Number of shares:	2.33 m
Market Cap:	96.8 m Euro
Enterprise Value:	100.4 m Euro
Free float:	22.8 %
Price high/low (12 M):	55.80 / 6.50 Euro
Ø turnover (12 M):	189,000 Euro (Xetra)

At a recent press conference, Staramba has presented its plans for the expansion in the area of virtual reality (VR). With their product STARAMBA.spaces, the Berliners focus on a platform that offers stars extensive options to present themselves in virtual form and to communicate and interact with their fans. In this segment, the company's large database of star avatars is both a USP and a competitive edge. The alpha version of STARAMBA.spaces has already been released, the beta version is to follow in the first quarter of 2018. The platform's final launch was announced for next September.

Subsequently, the solution could well become the company's major revenue driver. Fee-based events of stars, the selling of products and the integration of advertisements are only some of the conceivable revenue sources of the concept. The proprietary cryptocurrency ROYALTY will serve as billing unit. Of this currency, up to 300 m are to be placed in a pre-sale and as an ILO (Initial Public Leondrino Offering) at a price of USD 1.00 to 1.40.

FY ends: 31.12.	2015	2016	2017e	2018e	2019e	2020e
Sales (m Euro)	0.8	2.1	16.0	30.4	48.7	68.1
EBIT (m Euro)	-0.6	42.7	-7.9	-2.4	4.6	9.3
Net profit	0.9	45.8	-10.7	-3.5	2.9	7.3
EpS	-2.34	21.69	-4.59	-1.18	0.95	2.43
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Sales growth	2.4%	170.9%	680.0%	90.0%	60.0%	40.0%
Profit growth	-	-	-	-	-	154.9%
PSR	127.73	47.15	6.05	4.11	2.57	1.83
PER	111.7	2.1	-	-	43.6	17.1
PCR	-	-	-	23.37	9.57	7.24
EV / EBIT	-	2.4	-	-	27.9	13.8
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

## The next stage

Staramba has been growing rapidly this year with the sale of photogrammetry scanners and 3D data models as main growth drivers. At the beginning of November the company announced a major order for the new scanner generation 3D Instagram Fusion with a volume of about EUR 7.2 m, enabling it to reinforce its sales forecast for 2017 (about EUR 16 m). Towards the end of the month, at a press conference at the German Equity Forum, the company elucidated the details of the new social VR network STARAMBA.spaces and of the planned placement of its own cryptocurrency ROYALTY. These two projects are expected to increase the already high growth rates even further and to multiply the revenues again within the next two years.

## STARAMBA.spaces with a USP

STARAMBA.spaces is venturing into a wholly new market that is emerging due to a rapid technological progress in the area of virtual reality (VR). The already fast-growing market is expected to grow even more rapidly in the next years, owing on the one hand to the marked improvements in the hardware, which has become less expensive as well, and on the other to the ever increasing supply of software for this area. Altogether, this results in a new quality of experience. Against this background, Staramba is focusing on the star segment. At present, film, music and sports stars communicate mainly over channels like Facebook or Twitter, with accordingly limited presentation options. VR, however, offers wholly new possibilities, one basic prerequisite being a realistic depiction of the stars. With the world's largest avatar database containing already numerous celebrities, the Berliners have a USP for the development of this market. STARAMBA.spaces is a virtual world where the stars present themselves in custom-made environments and can communicate and interact with fans. The company presented the alpha version already in autumn, the beta version is to follow in the first quarter of 2018. The final launch was announced for September 2018.

## Numerous business opportunities

The product offers numerous business opportunities. The stars can stage paid events or can use the virtual world to create a new platform for their advertising partners and their products. Moreover, shops that sell virtual or real products are to be integrated as well. One of STARAMBA.spaces' highlights is a billing functionality that is based on blockchains. It automatically records and bills the purchased articles and how much time a user spends watching which advertisements. Therefore, the licensors do not, as is otherwise the case, have to wait for the bill until the end of the quarter, fearing that the licensee may not account correctly for every purchase. Due to the use of forgery-proof blockchain technology, the distribution of earnings in Staramba's virtual world takes place real-time, transparently and very cost-effectively. In this approach, Staramba's management sees an opportunity to revolutionize all the processes of the licensing industry.

## Pre-sale has started

A further important driver of the system's efficiency is the introduction of an own cryptocurrency ROYALTY, serving as billing unit for STARAMBA.spaces. This not only eliminates the problem of different currencies for the product that will be accessible worldwide, but the company is also – through its own stock of coins – creating opportunities for loyalty activities or the purchase of rights. Altogether, 500 m of so-called tokens will be created via the Leondrino platform, of which 300 m will be offered at USD 1.00 to USD 1.40. The pre-sale stage, where institutional investors have the possibility to purchase a maximum of 50 m tokens at a discounted price (or rather, strictly speaking, a bond convertible into tokens), has already started. The ILO (Initial Public Leondrino Offering) is to take place around the same time as the launch of STARAMBA.spaces, next September. Until that time, Leondrino with its solution is seeking the regulatory approval of BaFin, SEC and the Swiss financial supervisory authority FINMA.

## Additional management resources

In order to be able to master the rapid growth on management level as well, the company has recruited an experienced Chief Operating Officer, Frédéric Cremer. Mr. Cremer was previously working, among others, in a managerial capacity for the French games producer Ubisoft and has a long-standing international experience with diverse gaming platforms and mobile operating systems. In the management team, Mr. Cremer takes on the responsibility for content, publishing and diverse administrative tasks (e.g. personnel, legal matters). Moreover, Staramba has announced to more than double its headcount over the next few months.

## Basis for multiplication of sales

Staramba is thus laying the foundations for multiplying the sales again over the next two years. Although the already covered business areas (especially scanners and digital 3D models) will in all likelihood continue their dynamic development, virtual reality is the key driver to achieving the goal. We think that the concept of STARAMBA.spaces is convincing; the Berliners are definitely first movers in the business with lifelike stars in the virtual 3D world, with a signifi-

cant development edge and a unique asset (the avatar database). According to the management, the possibilities for new formats are already meeting a great deal of interest from the advertising industry.

## Estimates unchanged

It will still take some time until the monetization of this potential will be visible in Staramba's figures. We have already included (as a lump sum) additional revenues from the VR business in our estimation model, but in our cautious approach, we have remained far below the management's aims. Thus, we depict an increase of the total sales by about 200 percent until 2019. Our estimates, which we had last updated at the beginning of November, we leave at present unchanged. The following table shows the development of the key figures in the detailed forecast period, overviews as to Balance sheet, P&L and cash flows are to be found in the Annex.

## Price target: EUR 73.30 per share

In our favoured scenario (perpetual growth 1.0 percent, WACC 6.6 percent), this results – as before – in a fair market value of equity of EUR 221 m, corresponding (when converted to a hypothetically fully

m Euro	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
Sales	16.0	30.4	48.7	68.1	88.6	106.3	116.9	128.6
Sales growth		90.0%	60.0%	40.0%	30.0%	20.0%	10.0%	10.0%
EBIT margin	-49.6%	-7.7%	9.5%	13.7%	14.9%	15.0%	16.6%	18.3%
<b>EBIT</b>	<b>-7.9</b>	<b>-2.4</b>	<b>4.6</b>	<b>9.3</b>	<b>13.2</b>	<b>16.0</b>	<b>19.5</b>	<b>23.5</b>
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Adjusted tax payments	1.4	3.1	5.2	6.6	7.8	8.4	7.8	7.0
<b>NOPAT</b>	<b>-9.3</b>	<b>-5.4</b>	<b>-0.6</b>	<b>2.7</b>	<b>5.5</b>	<b>7.6</b>	<b>11.7</b>	<b>16.4</b>
+ Depreciation & Amortisation	12.5	12.5	12.6	12.7	12.7	11.9	6.5	0.5
+ Increase long-term accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Gross operating cash flows</b>	<b>3.2</b>	<b>7.1</b>	<b>12.1</b>	<b>15.4</b>	<b>18.1</b>	<b>19.5</b>	<b>18.1</b>	<b>17.0</b>
- Increase Net Working Capital	-2.1	-3.7	-2.4	-2.7	-3.1	-3.2	-2.6	-1.9
- Investments in fixed assets	-2.8	-0.6	-0.5	-0.7	-0.9	-1.1	-0.8	-0.6
<b>Free cash flows</b>	<b>-1.7</b>	<b>2.9</b>	<b>9.1</b>	<b>12.0</b>	<b>14.1</b>	<b>15.2</b>	<b>14.8</b>	<b>14.4</b>

*SMC estimation model*

diluted number of shares of 3.01 m) with an unchanged price target of EUR 73.30. The estimation risk we still assess as high (six points).

### Sensitivity analysis

When the input parameters are varied for the sensitivity analysis (WACC between 5.6 and 7.6 percent, perpetual growth between 0 and 2 percent), the fair value of the share fluctuates between EUR 64.90 and EUR 112.63 per share.

Sensitivity analysis WACC	Perpetual cash flows growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
5.6%	112.63	103.09	95.63	89.64	84.72
6.1%	100.30	93.09	87.29	82.54	78.56
6.6%	90.64	85.03	73.27	76.59	73.33
7.1%	82.85	78.40	74.68	71.53	68.82
7.6%	76.44	72.84	69.79	67.17	64.90

## Conclusion

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Staramba has presented first details of its business model for virtual reality. The company focuses on creating wholly new possibilities for stars to communicate and interact with their fans. Their comprehensive database of star avatars gives the Berliner a significant competitive edge in this area. The first presentation of STARAMBA.spaces was very promising and – according to the management – has met with great interest from advertising companies. Moreover, as a by-product of the platform, Staramba will be able to offer a revolutionary innovation, which could considerably influence the global licensing business: sales of licensed products and consumption of advertising can be recorded and billed in real time by means of blockchain technology. This means not only that billing ensues much faster than is currently usual, but also that it is transparent and forgery-proof.

Another device serving – amongst other things – for the facilitation of billing is the cryptocurrency

ROYALTY, which Staramba is currently introducing to the market in a pre-sale. ROYALTY not only solves the problem of different currencies in the global roll-out, it also offers numerous additional options, such as loyalty activities. And just as importantly, the sale of the tokens might result in a substantial cash injection for Staramba, which the company could use for increasing the investments in growth even more.

We think that the company is well positioned to continue the dynamic expansion course in 2018 and beyond. In our model, we calculate with a strong sales growth that is, nevertheless, still below the management's aims. Should even our estimate be achieved, it would create a price potential of up to EUR 73.30 (from today's view). However, the forecast risk stays high, as the VR platform still has to be launched. Our rating, therefore, is an unchanged "Speculative Buy".

# Annex I: Balance sheet and P&L estimation

## Balance sheet estimation

m Euro	12 2016	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
<b>ASSETS</b>									
I. Total non-current assets	77.48	72.80	60.86	48.72	36.72	24.95	14.16	8.52	8.65
1. Intangible assets	77.12	72.42	59.92	47.42	34.92	22.52	11.02	5.02	5.02
2. Tangible assets	0.16	0.29	0.86	1.22	1.71	2.34	3.05	3.42	3.55
II. Total current assets	3.32	7.60	39.56	55.69	76.51	100.51	121.93	140.05	154.38
<b>LIABILITIES and EQUITY</b>									
I. Equity	54.27	48.17	66.74	73.09	80.40	90.79	99.34	109.72	122.08
II. Accruals	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26
III. Liabilities	26.39	32.09	33.55	31.18	32.69	34.53	36.61	38.71	40.82
1. Long-term liabilities	22.64	26.12	26.12	22.64	22.65	22.65	22.65	22.65	22.66
2. Short-term liabilities	3.76	5.97	7.43	8.54	10.05	11.88	13.96	16.05	18.16
<b>TOTAL</b>	<b>80.93</b>	<b>80.53</b>	<b>100.55</b>	<b>104.53</b>	<b>113.36</b>	<b>125.58</b>	<b>136.21</b>	<b>148.69</b>	<b>163.16</b>

## P&L estimation

m Euro	12 2016	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
Sales	2.05	16.01	30.42	48.67	68.14	88.58	106.30	116.93	128.62
Total operating revenue	1.76	15.91	30.57	48.87	68.34	88.78	106.50	117.13	128.82
Gross profit	0.62	11.03	22.05	36.22	49.94	63.98	75.67	82.05	88.95
EBITDA	54.87	4.78	10.19	17.23	22.00	25.89	27.84	25.92	23.99
EBIT	42.66	-7.94	-2.36	4.61	9.32	13.23	15.99	19.47	23.48
EBT	42.28	-8.22	-2.63	5.22	10.45	14.84	18.15	22.09	26.49
EAT (before minorities)	45.77	-10.69	-3.54	2.87	7.32	10.39	12.70	15.46	18.55
EAT	45.77	-10.69	-3.54	2.87	7.32	10.39	12.70	15.46	18.55
EPS	21.69	-4.59	-1.18	0.95	2.43	3.45	4.22	5.14	6.16

## Annex II: Cash flows estimation and key figures

### Cash flows estimation

m Euro	12 2016	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
CF operating	-1.21	-0.24	5.35	13.06	17.27	19.95	21.37	19.35	17.13
CF from investments	-2.96	-2.84	-0.61	-0.49	-0.68	-0.89	-1.06	-0.82	-0.64
CF financing	4.17	3.69	22.35	0.63	0.83	0.95	-3.14	-4.15	-5.36
Liquidity beginning of year	0.00	0.01	0.61	27.70	40.91	58.33	78.34	95.50	109.88
Liquidity end of year	0.01	0.61	27.70	40.91	58.33	78.34	95.50	109.88	121.01

### Key figures

Percent	12 2016	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024
Sales growth	170.9%	680.0%	90.0%	60.0%	40.0%	30.0%	20.0%	10.0%	10.0%
Gross margin	30.4%	68.9%	72.5%	74.4%	73.3%	72.2%	71.2%	70.2%	69.2%
EBITDA margin	2673.1%	29.9%	33.5%	35.4%	32.3%	29.2%	26.2%	22.2%	18.7%
EBIT margin	2078.5%	-49.6%	-7.7%	9.5%	13.7%	14.9%	15.0%	16.6%	18.3%
EBT margin	2060.0%	-51.4%	-8.6%	10.7%	15.3%	16.8%	17.1%	18.9%	20.6%
Net margin	2229.6%	-66.8%	-11.7%	5.9%	10.7%	11.7%	12.0%	13.2%	14.4%

# Disclaimer

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## Editor

sc-consult GmbH

Alter Steinweg 46

48143 Münster

Internet: [www.sc-consult.com](http://www.sc-consult.com)

Phone: +49 (0) 251-13476-94

Telefax: +49 (0) 251-13476-92

E-Mail: [kontakt@sc-consult.com](mailto:kontakt@sc-consult.com)

## Responsible analyst

Dipl.-Kfm. Holger Steffen

## Charts

The charts were made with Tai-Pan ([www.lp-software.de](http://www.lp-software.de)).

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7) sc-consult GmbH has included the company's shares in a virtual portfolio managed by sc-consult GmbH

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## II) Preparation and updating

The present financial analysis was prepared by: Dipl.-Kfm. Holger Steffen

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Strong Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
Speculative Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).
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The expected change in price refers to the current share price of the analyzed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

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Date	Rating	Target price	Conflict of interests
06.11.2017	Speculative Buy	73.30 Euro	1), 3), 7)
20.07.2017	Speculative Buy	63.15 Euro	1), 3), 7)
03.05.2017	Speculative Buy	54.00 Euro	1), 3), 7)
08.03.2017	Speculative Buy	21.15 Euro	1), 3), 4), 7)
09.12.2016	Speculative Buy	18.70 Euro	1), 3), 4), 7)
08.11.2016	Speculative Buy	18.70 Euro	1), 3), 4), 7)
22.06.2016	Speculative Buy	18.30 Euro	1), 3), 7)
15.12.2015	Speculative Buy	16.50 Euro	1), 3)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: one report, two comments

The publishing dates for the financial analyses are not yet fixed at the present moment.

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